COMMUNITY CARE OF RUTHERFORD COUNTY, INC.

(A Component Unit of Rutherford County, Tennessee)

AUDITED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

COMMUNITY CARE OF RUTHERFORD COUNTY, INC.

Table of Contents

INTRODUCTORY SECTION

COMMUNITY CARE OF RUTHERFORD COUNTY, INC.

Roster of Officials

June 30, 2013

Board of Directors

Ernest Burgess, Chairman
Mike Nunley, Vice Chairman
Greg Lyles, Secretary/Treasurer
Carol Cook
Kaye Jernigan
Frankie Johnson
Paul Johnson
Eugene Patterson
Annie Ruth Uselton

Medical Advisor

George Smith, M.D.

Administrator

Charles M. King

FINANCIAL SECTION

JOELDPARKSPC
CERTIFIED PUBLIC ACCOUNTANT

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Smyrna, Tennessee 37167
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Community Care of Rutherford County, Inc.
Murfreesboro, Tennessee

I have audited the accompanying statement of net assets of Community Care of Rutherford County, Inc., a component unit of Rutherford County, Tennessee as of June 30, 2013, and the related statements of revenue, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the management of Community Care of Rutherford County, Inc. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States of America and requirements prescribed by the Comptroller of the Treasury, State of Tennessee. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Care of Rutherford County, Inc., a component unit of Rutherford County, Tennessee, as of June 30, 2013, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 10, 2013, on my consideration of Community Care of Rutherford County Inc.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

My audit was conducted for the purpose of forming and opinion on the financial statements taken as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Joel D. Parks, P.C.

October 10, 2013

Community Care of Rutherford County, Inc.
Statement of Net Assets
June 30, 2013

ASSETS	
Current:	
Cash and cash equivalents	$ 2,626,682
Accounts receivable, net	942,937
Inventories	22,386
Prepaid expenses	22,557
	3,614,562
Propery and Equipment:	
Land improvements	126,130
Buildings and leasehold improvements	410,019
Transportation equipment	87,095
Furniture, fixtures, and equipment	689,512
Construction in progress	270,803
	1,583,559
Less: accumulated depreciation	(623,898)
	959,661
Other:	
Deposits	1,013
	$ 4,575,236
LIABILITIES	
Current:	
Accounts payable	$ 136,759
Contracts payable	75,589
Retainage payable	13,864
Accrued salaries and wages payable	116,905
Accrued payroll taxes	8,659
Accrued vacation payable	251,629
Accrued retirement payable	44,440
Accrued medicaid surcharge	24,290
Resident funds held in trust	28,591
	700,726
Noncurrent:	
Deposit on Superintendent's house	250
Other post-employment benefits obligation	983,499
	983,749
	1,684,475
NET ASSETS	
Invested in capital assets	959,661
Unrestricted	1,931,100
	$ 2,890,761

See Accompanying Notes to Financial Statements

Community Care of Rutherford County, Inc.
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2013

Operating Revenues	
Net resident service revenue	$ 9,390,855
Other operating revenue	228,703
	9,619,558
Operating Expenses	
Medical and nursing services	3,227,670
Employee benefits	2,200,120
Therapy and purchased services	901,417
Administrative and general	835,536
Dietary services	704,155
Plant operation and maintenance	537,807
Housekeeping services	414,680
Bed license fees	291,475
Laundry and linen	147,201
Recreational activities	173,125
Childcare expenses	188,587
Social services	44,198
Depreciation	94,390
Other operating expense	35,983
Medical records	46,371
Property expense	19,493
	9,862,208
Net operating income	(242,650)
Non-Operating Revenue (Expenses)	
Interest income	4,994
Contributions received	11,332
	16,326
Change in Net Assets	(226,324)
Net Assets - July 1, 2012	3,117,085
Net Assets - June 30, 2013	$ 2,890,761

See Accompanying Notes to Financial Statements

Community Care of Rutherford County, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2013

Cash flows from operating activities	
Received from residents and third party payors	$ 9,964,835
Received from others	250
Paid to suppliers for goods and services	(4,324,904)
Paid to employees for services	(5,202,438)
Net cash provided by operating activities	437,743
Cash flows from non-capital financing activities	
Contributions received	11,332
Decrease in resident funds held in trust	(6,964)
Net cash provided by non-capital financing activities	4,368
Cash flows from capital and related financing activities	
Purchase of equipment	(158,067)
Construction of facilities in progress	(171,593)
Net cash used by capital and related financing activities	(329,660)
Cash flows from investing activities	
Maturity of certificates of deposits	351,703
Interest income	4,994
Net cash provided by investing activities	356,697
Net increase in cash	469,148
Cash and cash equivalents - July 1, 2012	2,157,534
Cash and cash equivalents - June 30, 2013	$ 2,626,682

Reconciliation of Operating Income to Net Cash Provided by Operating Activity

Operating Income	$ (242,650)
Adjustments to reconcile operating income to net cash flows from operating activities	
Depreciation	94,390
Changes in assets and liabilities:	
Decrease in accounts receivable	345,277
Increase in inventories	(604)
Increase in prepaid expense	(7,100)
Decrease in deposits	1,013
Decrease in accounts payable	(51,351)
Increase in contracts payable	75,589
Increase in retainage payable	13,864
Increase in accrued salaries and wages payable	16,326
Increase in accrued payroll taxes	701
Increase in accrued vacation payable	65,955
Decrease in accrued retirement payable	(3,237)
Increase in deposit on Superintendent's house	250
Increase in other post-employment benefits obligation	129,320
	680,393
Net cash provided by operating activities	$ 437,743

See Accompanying Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Community Care of Rutherford County, Inc. (the Nursing Home) have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The financial statements and footnotes are the representation of the Nursing Home's management.

The Governmental Accounting Standards Board (GASB) is the accepted standard–setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies.

Reporting Entity – Component Unit

As specified and described by Standard 14 of GASB, the Nursing Home is a component unit of the primary government of Rutherford County, Tennessee. The Nursing Home reports its financial information separately from Rutherford County; however, the County in its financial report, also discretely presents the Nursing Home's financial information.

Legally, the Nursing Home is a separate non-profit entity that has considerable legal, financial, and administrative autonomy. However, as the governing board is not elected, but is instead entirely appointed by the Rutherford County's Board of Commissioners, the Nursing Home cannot be a primary government. Instead, it qualifies as a component unit according to the directives of GASB.

GASB 14 specifies that component units must be legally separate organizations, which have financial accountability to a primary government. Financial accountability exists prima facie if a special-purpose government is not fiscally independent. GASB states that to be fiscally independent, the government has to have the authority to do all of three activities. One of these activities is to issue bonded debt without approval by another government. The Nursing Home may not issue debt without Rutherford County, Tennessee's approval, as the County remains contingently liable for all debt obligations. Because the Nursing Home is both a legal entity and financially accountable to the primary government of Rutherford County, as the County Commission approves all members of the governing board and by the nature of its fiscal dependence on Rutherford County as described above, it is a component unit of Rutherford County, Tennessee.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Nursing Home accounts for its financial position and results of operations in accordance with generally accepted accounting principles as defined in the statements of the Governmental Accounting Standards Board (GASB) for proprietary funds. Generally accepted accounting principles for proprietary fund types are those applicable to similar businesses in the private sector, and the measurement focus is on the flow of economic resources.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont.)
Proprietary fund types are accounted for on the accrual basis, whereby income is recognized as it is earned and expenses are recognized as they are incurred, whether or not cash is received or paid out at that time. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations.

As a component unit of Rutherford County, Tennessee, the financial statements of the Nursing Home are presented in the manner required by generally accepted governmental accounting principles for enterprise funds.

The Nursing Home has applied all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. Enterprise funds account for operations that are financed and operated in a manner similar to that of a private business. The intent of the governing body is that the costs (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

Net Resident Revenue
The principal operating revenue of the Nursing Home is resident revenue based on services rendered at amounts equal to established rates. Allowances for contractual adjustments are recorded for the differences between established rates and amounts estimated to be paid by the Medicare and Medicaid programs and other third party payors. Contractual adjustments are deducted from gross resident revenue to determine net resident revenue. Amounts paid under the Medicare and Medicaid programs are generally based on fixed rates per resident day, adjusted prospectively. All amounts earned under the Medicare, Medicaid, and other governmental programs are subject to review by the third party payors. Any differences between estimated settlements and final determinations are reflected in operations in the year finalized.

Cash, Cash Equivalents and Investments
Cash and cash equivalents consists of cash, demand deposits and short-term certificates of deposit with an original maturity of three months or less. At June 30, 2013, there were no certificates of deposit that qualified as cash equivalents. Investments were limited to certificates of deposit and were stated at fair value.

Inventories
Inventories consist of expendable supplies held for consumption and are valued at the lower of cost or market based on the first-in, first-out method.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is provided using the straight-line method. Maintenance and repairs are charged to operations when incurred. The Nursing Home eliminates the costs and related allowances from the accounts for properties sold or retired, and any resulting gains or losses are included in income. Donated fixed assets are valued at their estimated fair value on the date donated. The center estimates the useful lives of the respective classes of plant and equipment as follows:

Land improvements	10-20 years
Buildings and leasehold improvements	10-25 years
Transportation equipment	4-5 years
Furniture, fixtures and equipment	3-20 years

Compensated Absences

Nursing Home employees accrue personal leave, or compensated absences, by a prescribed formula based on length of service. Compensated absences related to the Nursing Home's employees are recorded within the period earned.

Operating Revenues and Expenses

The Nursing Home's operating revenues and expenses consist of revenues earned and expenses incurred relating to the operation and maintenance of its system. All other revenues and expenses are reported as non-operating revenues and expenses and consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or ancillary activities.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

No provision for accrued income taxes is reflected on the financial statements, as the Nursing Home is exempt from income taxes as a non-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code.

NOTE 2 – CASH AND CERTIFICATES OF DEPOSIT

The Nursing Home is authorized to make investments in bonds, notes or treasury bills of the United States, certificates of deposit at Tennessee state chartered or federally chartered banks and savings and loan associations, Federal Loan Bank bonds, Federal Home Loan Bank notes and bonds, Federal National Mortgage Association notes and debentures, banks or cooperative debentures, or any of its other agencies, or obligations guaranteed as to principal and interest by the United States or any of its agencies with a maturity not greater than one year, or in the pooled investment fund established under Tennessee law. In the past, the board of directors chose to limit the investment of funds to certificates of deposit at banks and savings and loan institutions. Cash reserves for operations were held in bank checking and savings accounts.

Cash – At June 30, 2013, the carrying amount of cash deposits was $2,626,332 and the bank balance was $2,840,619. At June 30, 2013, the entire bank balance was covered by federal depository insurance or collateral held by the Tennessee Bank Collateral Pool. The Tennessee Bank Collateral Pool is a multiple financial institution collateral pool in which member financial institutions holding public funds pledge collateral securities. In the event any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. The pool also has the ability to make additional assessments on a pro rata basis to the members of the pool if the value of collateral is inadequate to cover a loss. Additionally, cash and cash equivalents presented on the balance sheet include $350 of cash on hand that not included in cash deposits above.

Certificates of Deposit – The certificates of deposit, held during the year but withdrawn upon maturity prior to June 30, 2013, were insured by the Federal Deposit Insurance Corporation or the Tennessee Bank Collateral Pool.

NOTE 3 – ACCOUNTS RECEIVABLE

Receivables totaling $1,288,214 as of June 30, 2013, were comprised of:

Resident service fees	$1,017,937
Less: allowance for uncollectibles	(75,000)
Net resident service fees	$ 942,937

Resident service revenue is reported at the estimated net realizable amounts from residents, third-party payers, and others for services rendered. Revenue under third-party payer agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

NOTE 3 – ACCOUNTS RECEIVABLE (CONT.)

Resident accounts receivable are due within 10 days after the issuance of the request for payment. Third-party payer receivables are usually collected within 60 days. Receivables past due more than 120 days are considered delinquent. Management, based on individual evaluation and specific circumstances, writes off delinquent accounts. Some delinquent accounts deemed to be collectible are placed with an attorney for collection. Management uses the allowance method in accordance with generally accepted accounting principles and presents revenue net of written off delinquent accounts.

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013 was as follows:

Description	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not depreciated				
Construction in progress	$ 99,210	$284,777	$113,184	$ 270,803
Capital assets depreciated				
Land improvements	12,946	113,184	-	126,130
Buildings and improvements	410,019	-	-	410,019
Transportation equipment	85,155	1,940	-	87,095
Furniture, fixtures and equipment	658,706	42,943	12,137	689,512
	1,166,826	158,067	12,137	1,312,756
Accumulated depreciation				
Land improvements	1,527	1,459	-	2,986
Buildings and improvements	111,025	25,709	-	136,734
Transportation equipment	53,566	8,753	-	62,319
Furniture, fixtures and equipment	375,527	58,469	12,137	421,859
Total	541,645	94,390	12,137	623,898
Net capital assets	$ 724,391	$348,454	$113,184	$ 959,661

Depreciation expense for the fiscal year ended June 30, 2013 amounted to $94,390.

NOTE 5 – RESIDENT FUNDS HELD IN TRUST

At June 30, 2013, the Nursing Home had a fiduciary responsibility for funds in the amount of $28,591 on behalf of residents. Of this amount, $26,666 was held in a separate interest bearing cash account, $100 was held as cash on hand as resident trust petty cash and $2,025 was due from the facility's operating cash account as of June 30, 2013.

The Nursing Home is required to maintain a cash account as a depository for resident funds. The fund is restricted in use and can be accessed only for providing spending money for residents, purchasing supplies for residents with cash in the fund, or paying amounts due to the Nursing Home for resident care, providing the amount does not include monies stipulated for residents' use only. All funds are required to be placed in an insured interest-bearing account.

NOTE 6 – LEASE COMMITMENT

On April 7, 2013 the Nursing Home renewed its lease agreement with Rutherford County, Tennessee for the use of the building it occupies. The Nursing Home, under terms of the lease, will incur no lease expense as long as the Nursing Home meets its responsibility to pay timely its cost of group health and life insurance premiums incurred. The lease term is for a period of five years, beginning July, 1 2011 and ending on June 30, 2016 and may be terminated by either party upon a 30-day written notice. During the fiscal year ended June 30, 2013, the Nursing Home incurred and paid group health and life insurance premiums amounting to $1,072,401.

NOTE 7 – LITIGATION

The Nursing Home was a party to one lawsuit at June 30, 2013. A local legal firm was defending the Nursing Home in this matter and indicated that any loss would not exceed existing insurance coverage or the government limit on liability claims of $300,000.

NOTE 8 – CONCENTRATION OF CREDIT RISK

The Nursing Home grants credits without collateral to its residents, most whom are insured under third-party payer agreements. The receivables from residents and third-parties are comprised of:

Medicaid	27.99%
Medicare	44.32%
Private	11.62%
Insurance	16.07%

Approximately 87.05% of net resident revenue is derived from third-party payers.

NOTE 9 – RISK FINANCING

The Nursing Home is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Nursing Home maintains commercial insurance coverage on each area of risk. Exposure is limited to claims in excess of standard policy limitations. The Nursing Home annually reviews its insurance needs based on claims and/or potential claims to minimize exposure. There were no claims in excess of insurance coverage during the past three years.

NOTE 10 – PENSION PLAN

Plan Description – Employees of Rutherford County are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The retirement plan for Community Care of Rutherford County is included in the total retirement program for Rutherford County. Therefore, separate retirement information for the Nursing Home is not available. Details relative to the funding status and progress, actuarially determined contribution requirements and contribution made, and trend information regarding the retirement plan can be found in the Comprehensive Annual Financial Report for Rutherford County. Total contributions to the plan by the Nursing Home for the year ended June 30, 2013 amounted to $572,340.

NOTE 11 – POST-EMPLOYMENT BENEFITS

From an accrual accounting perspective, the cost of other post-employment healthcare benefits (OPEB), like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2009, the Nursing Home recognizes the cost of post-employment benefits in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the Nursing Home's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years commencing with the 2009 liability.

Plan Description – The Nursing Home is included under Rutherford County's postretirement health insurance plan. Rutherford County's plan is an agent multiple-employer defined benefit OPEB plan. Benefits are established and amended by an insurance committee established by the County Commission.

NOTE 11 – POST-EMPLOYMENT BENEFITS (CONT.)

Funding Policy – The premium requirements of plan members are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally by the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Rutherford County (County) develops its own contribution policy in terms of subsidizing active employees' or retired employees' premiums. An employee who retires from the County becomes eligible for retiree health coverage upon the earlier of attaining: (1) age 55 with 15 years of service and active coverage for five continuous years, (2) age 62 with ten years of service and active coverage for five continuous years, or (3) any age with 30 years of services and active coverage for five continuous years.

An employee who becomes disabled becomes eligible for retiree health coverage if they are under age 65 and have completed at least ten years of service prior to total disability termination plus the employee must have had active coverage for a continuous five year period, and must have filed and qualified for Medicare disability coverage. If a retiree is eligible for health insurance coverage, health coverage is also provided for the retiree's spouse and/or dependent children. In the event of the retiree's death, the eligible surviving spouse and dependent children may elect to continue coverage until they would no longer qualify as dependents if the retiree were alive. Eligible retirees and dependents are required to share in the cost of health insurance coverage. Effective May 1, 2009, current retirees and actives age 65 and over as of December 31, 2009, and actives that have completed 30 years of service as of December 31, 2009, will be required to contribute 25% of the adequate premium for themselves and 50% of the adequate premium for their spouses. Effective January 1, 2010 all retirees that are retirement eligible as of December 31, 2010 or have at least 20 years of service as of December 31, 2010, upon attaining age 65, will be required to contribute 50% of the adequate premium for themselves and their spouses. This structure will be phased in over four years (2010 — 2013) such that contributions will be approximately 32% in 2010, 38% in 2011, 44% in 2012 and 50% in 2013 and thereafter.

Adopted in May 2010 and effective January 1, 2011, the following changes take effect: (1) employees with at least 10 years of service but less than 20 years of service as of December 31, 2010 - no prescription drug coverage will be provided post age 65 and contributions will be 50% of the adequate premium rate for themselves and their spouses, (2) employees with at least 7 years of service but less than 10 years of service as of December 31, 2010 - no prescription drug coverage will be provided post age 65 and contributions will be 50% of adequate premium rate for themselves and 75% of the adequate premium rate for their spouses, (3) employees hired prior to February 12, 2009 with less than 7 years of service as of December 31, 2010 - no prescription drug coverage will be provided post age 65 and the County contribution will be limited to the lesser of $500 or the actual cost of coverage.

NOTE 11 – POST-EMPLOYMENT BENEFITS (CONT.)

Adopted in May 2010 and effective January 1, 2011, the following changes take effect: (1) employees with at least 10 years of service but less than 20 years of service as of December 31, 2010 - no prescription drug coverage will be provided post age 65 and contributions will be 50% of the adequate premium rate for themselves and their spouses, (2) employees with at least 7 years of service but less than 10 years of service as of December 31, 2010 - no prescription drug coverage will be provided post age 65 and contributions will be 50% of adequate premium rate for themselves and 75% of the adequate premium rate for their spouses, (3) employees hired prior to February 12, 2009 with less than 7 years of service as of December 31, 2010 - no prescription drug coverage will be provided post age 65 and the County contribution will be limited to the lesser of $500 or the actual cost of coverage.

The following changes will apply to anyone hired after February 12, 2009: (1) no prescription drug coverage will be provided post age 65, (2) the County contribution will be limited to the lesser of $300 per month or the actual cost of coverage, (3) if hired after December 31, 2010 no benefits will be provided post age 65.

Annual OPEB and Net OPEB Obligation – The components of the annual required contribution (ARC) and the net OPEB obligation are as follows for Community Care of Rutherford County, Inc.:

ARC	$199,711
Interest on the NPO	34,167
Adjustment to the ARC	(48,448)
Annual OPEB cost	185,430
Amount of contribution	(56,110)
Increase in NPO	129,320
Net OPEB obligation, July 1, 2011	854,179
Net OPEB obligation, June 30, 2012	$983,499

Funded Status and Funding Progress – The funding status and funding progress of the plan as of June 30, 2012, for Community Care of Rutherford County, Inc. are as follows:

Actuarial valuation date	January 1, 2012
Actuarial accrued liability (AAL)	$2,130,673
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	2,130,673
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	4,601,067
UAAL as a % of covered payroll	46%

NOTE 11 – POST-EMPLOYMENT BENEFITS (CONT.)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The schedule of funding progress presents multi-year information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2012	$0	$2,131	$2,131	0%	$4,601	46%
July 1, 2011	0	1,927	1,927	0%	4,681	41%
July 1, 2010	0	1,996	1,996	0%	4,744	42%

(Dollar amounts in thousands)

Actuarial methods and Assumptions – The discount rate as of January 1, 2012 is 4%. The discount rate is determined by the plan sponsor based on the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits. The County does no pre-fund the ARC, and therefore the discount rate is based on the expected return on the County's general assets.

The trend rate for pre-Medicare health claims is 8.5% for 2012 grading down to 5.0% for 2023 and beyond. The trend rate for post-Medicare health claims is 7.0% for 2012 grading down to 5.0% for 2023 and beyond. The trend rate is determined by the plan sponsor based on historical date and anticipated experience under the plan.

The method used to calculate normal cost and actuarial accrued liability is the projected unit credit cost method. Under this method, the present value of projected benefits is estimated at each decrement age, taking into account the value of future increases in medical claims and the effect of medical contributions and Medicare reimbursement. The total present value of projected benefits is the sum of the present values for each decrement age. The actuarial accrued liability is calculated by prorating the present value of projected benefits by service at the valuation date over service projected to the date of decrement. The normal cost is the present value of projected benefits attributable to the valuation year.

NOTE 12 – HEALTH CARE REGULATIONS

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient/resident services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as repayments for patient/resident services previously billed. Management believes that the Nursing Home is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

INTERNAL CONTROL & COMPLIANCE SECTION

jdp JOELDPARKSPC
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Community Care of Rutherford County, Inc.
Murfreesboro, Tennessee

I have audited the financial statements of Community Care of Rutherford County, Inc. as of and for the year ended June 30, 2013, and have issued my report thereon dated October 10, 2013. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Community Care of Rutherford County, Inc. is responsible for establishing effective internal control over financial reporting. In planning and performing my audit, I considered the Nursing Home's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nursing Home's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Nursing Home's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nursing Home's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, and the State of Tennessee Comptroller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Joel D. Parks, P.C.

October 10, 2013

COMMUNITY CARE OF RUTHERFORD COUNTY, INC.

Schedule of Findings and Responses

June 30, 2013

PART I - SUMMARY OF AUDITOR'S RESULTS

1. An unqualified opinion was issued on the financial statements of the Nursing Home.
2. The audit of the financial statements disclosed no significant deficiencies in internal control.
3. The audit of the financial statements disclosed no instances of noncompliance.
4. The Nursing Home expended less than $500,000 in federal funds.

PART II - FINDINGS AND QUESTIONED COSTS REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING PROCEDURES

None

PART III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

COMMUNITY CARE OF RUTHERFORD COUNTY, INC.

Disposition of Prior Year Findings

June 30, 2013

PRIOR YEAR AUDIT RECOMMENDATIONS NOT IMPLEMENTED
(REF: Audited Financial Statements for the FYE June 30, 2012)

None

PRIOR YEAR AUDIT RECOMMENDATIONS IMPLEMENTED
(REF: Audited Financial Statements for the FYE June 30, 2012)

Finding	Page Number	Subject

None